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# Does Access to Formal Financial Sources Leads to Growth of Micro and Small Enterprises? Evidence from West Oromia Region, Ethiopia

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**Abstract**
Ethiopian MSEs are at early stage of development, and face various constraints. One of the most crucial problems is lack of access to formal financial sources for start-up and operational activities. However, the impact of access to finance on MSEs growth is still controversial. The main objective of this study is to investigate the contribution of access to formal financial sources on growth of MSEs in Ethiopia. 200 sample MSEs selected from three towns in west Oromia region are used for this study. The finding indicated that access to finance is not a fundamental factor for the growth of MSEs. Only entrepreneur capability and preparation of business plan before starting the business are found to be significantly contributing to the growth of MSEs. The researchers recommend that concerned parties including MSE agencies, TVET colleges and Universities should emphasis on capacitating graduates and MSE operators' entrepreneurial and managerial capability.
**Keywords:** Access to Finance, Banks, Growth, Micro and Small Enterprises, Micro Finance Institutions.

## I. INTRODUCTION

MSEs have been recognized as being great contributors to the Ethiopian economy offering both employment creation and platform for innovative ideas. They form a larger percentage of the businesses that operate in the country as compared to their medium and large counterparts. They are however challenged by many constraints that hindered their performance and consequently their growth. One of the main constraints that have been highlighted over the years is lack of access to formal financial sources and lack of skills in management

Especially, access to credit from MFIs is believed to play a significant factor in increasing the growth of MSEs. It is thought that credit boost income levels, business expansion, competitiveness, increase sales volume and thereby bring more profits. It is believed that access to credit enables MSEs to overcome their working capital constraints and undertake investments. It is also argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on MSEs growth because they guarantee sustainable access to credit to the MSEs. The main objective of microcredit by MFIs is to improve the welfare of the low income earners as a result of better access to small loans that are not offered by the big banks. Access to credit further increases MSE's risk bearing abilities; improve risk-coping strategies and enables consumption smoothing overtime (Ngugi & Kerongo, 2014).

Bank credit usually comes in the form of working capital loan or intermediate and long term investment loans. MSEs often use these lines of credit to expand and explore new areas of their industry, acquire strategic equipments and machinery, pay employee salary or purchase raw material. These are essential to the overall success of MSEs. Lack of access to credit is indicated as a key problem for MSEs worldwide. In some cases, even where credit is available, the entrepreneur may have difficulties because the lending conditions may require collateral for the loan or it takes long process. Credit constraints are critical in Ethiopia where undeveloped financial system forces entrepreneurs to rely on self-financing or borrowing from relatives and informal sources.

The authors have undertaken a survey research on the topic "Financing Micro and Small Enterprises: Evidence from West Oromia Region" in the academic year 2015/16. The objective is to identify the bottlenecks surrounding MSEs in the country and provide appropriate suggestions for solving them. This article is part of the above mentioned study specifically aimed to see whether access to formal financial sources has an impact on the growth of MSEs. To achieve the purpose, the remaining part of this paper is structured as follows. Section two explains the research problem, section three reviews related literatures. Section four presents the research design and methodology adopted for the study. Section five presents the result, analysis and discussion and finally section six concludes the paper.

## II. STATEMENT OF THE PROBLEM

One of the objectives of MSEs is growth. The term growth implies an increase in size of the enterprise that can be quantified or an increase in capital from the initial status. The size of MSE is the result of the growth over a period of time and it should be noted that firm growth is a process while firm size is a state. Theoretically, one of

 

the main determining factors for MSE's growth is the availability of financial resources to the firm (Ngugi & Kerongo, 2014).

All business ventures regardless of size require finances from inception and throughout their life cycles. The amount invested will influence greatly the size of the venture, which in turn determines the early survival of an enterprise and latter growth and expansion. An entrepreneur will require seed money to start a business, to operate and manage the business enterprise. Access to credit is believed to play important role for MSE's seeking to grow and expand their businesses. Access to credits allows MSEs to utilize productive assets to enhance their productivity and economy of scale. Access to finance encourages market entry, facilitates growth, reduces risks, and fosters innovation and entrepreneurial activity (MOUDC, 2013). Enterprises need finance to invest in new equipment and machinery, reach out to new markets and products, and cope with temporary cash flow shortages as well as to innovate and expand.

However in actual practice, some studies on the impact of access to finance on MSEs' growth have yielded contrary results that are inconclusive especially for developing countries. For instance, Micro-financing as practiced by Nigeria microfinance banks did not enhance growth and expansion capacity of MSE (Abiola, 2012). Similar to the Nigerian finding, carrying out research in three African countries including; Kenya, Malawi and Ghana, Buckley (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of MSEs growth, increased income flows or level of employment. These studies indicated that finance is not everything and improvement to access to microfinance was not sufficient unless the change or improvement is accompanied by changes in technology and or awareness of the operators.

This indicates that the association between access to finance and growth is still controversial and needs further research. On the other hand, in our country there is a bad conception that the key to growth is access to finance. Most MSE operators complain every time that lack of finance is the main hindering factor not to grow. But to our knowledge, there are few empirical studies that investigated the impact of access to finance on the growth of MSEs in Ethiopia especially in west Oromia sub-region including Jimma, Illu Aba Bora and the four Wellega zones. Therefore, the main objective of this research is to study the contribution of access to formal financial sources to the growth of MSEs found in west Oromia sub-region.

## III. LITERATURE REVIEW

The concept of growth is mostly subject to criticism as there does no one common understand among scholars on how to measure it. Growth can be measured with number of workers, amount of profit, revenue, and capital it makes across time. There are still others who claim that the rate at which the firm adopts a new technology or way of production can show the direction of growth. Measures like the growth of capital and newly created jobs have been introduced as variables to measure the growth of the establishments in many cases. On top of these, question that directly gauges the perception of the owners about the growth trend has also been used to measure MSE's growth (MOUDC, 2013).

Some empirical studies worldwide showed positive impact of access to formal finance on growth. At cross-country level, Wagenvoort (2003) estimated the growth sensitivity of cash flow of enterprises in 14 European countries over 1996 – 2000 periods by Ordinary Least Square (OLS) method and found that financial constraints limit the growth potential of MSEs. Beck, Demirgüç-Kunt & Maksimovic's (2005) study on firms in 54 countries confirmed that financial constraints limit firm growth, especially small firms. At country level, Rahaman (2011) estimated that a 10 percent increase in bank credit result in an 18.14 percent increase in growth of the sample firms in Ireland and the UK. Khandker, Samad, and Ali (2013) tested the impact of access to finance on microenterprise growth and profitability in Bangladesh using a fixed-effect model. Their results suggest that credit constraints negatively affect microenterprise's profit margin more severely than other types of constraints such as transportation, lack of demand, etc. In addition, enterprises that borrowed from money lenders to start their business have significantly lower profit than borrowing from formal financial sources.

However, studies by other researchers on the impact of MFIs lending on MSEs growth has also yielded contrary results that are inconclusive especially for developing countries. Zeller and Sharma (2003) argued that microfinance can aid in the improvement or establishment of small enterprises, potentially making the difference between alleviating poverty and economically secure life but do not necessarily bring growth. Burger (2008) also indicated that micro financing tends to stabilize rather than increase income and tends to preserve rather than create jobs. A study in Philippines found that expanding access to credit is not associated with an increase in business growth (Karlan & Zinman, 2010). In addition, Allen et al. (2012) found that firms in India with access to bank or microfinance did not perform better than the others.

When the relationship between access to formal finance and MSEs' growth is analyzed, one should consider that there are also other factors, which account for potential interactive influences on the relationship. Although these other variables are not directly related to the estimation of the relationship between access to formal finance and growth, it is important to take them into account in order to isolate their effect on growth.

 

The search for explanatory variables should be based on economic principles and logical reasoning, starting with the question, which variables are likely to influence MSE's growth? Therefore, in addition to access to finance, there are many other variables, which can potentially affect MSE's growth. Entrepreneurship capability, Preparation of business plan, Start up capital, Owner's/ manager's educational level and Owner's/manager's training have been considered in earlier studies that investigated the association between access to formal finance and MSE's growth. For this research, all these five independent variables are also considered.

**a. Entrepreneur Capability**

The reason why people decide to be self-employed has been investigated for the last two decades. Birley and Westhead (1994) have identified seven different motives, namely, need for independence, need for approval, need for personal development, welfare considerations, perceived instrumentality of wealth, tax reduction, and following role models. In more comprehensible way, Carter et.al.(2003) have extracted six entrepreneurship reasons: innovation, independence, recognition, roles, financial success, and self-realization. All these needs leads to growth of the newly established firm which implies that entrepreneurial capability is one of the factor that enhances growth of MSEs

**b. Education**

Most previous studies showed that formal education has a positive impact on the business performance in general and survival in particular (MOUDC, 2013). Owners/ managers with better educational background tend to be more productive and formal education enables them enhance their production, management, and marketing skills. Nichter and Glodmark (2005) further explained that the overall educational level in developing countries and the very educational characteristic feature of small firm owners happens to dictate firm growth

However as found by Taylor (1999), formal higher education qualification is not an important factor to determine self-employment duration in Britain. Owner or manager of MSEs, who had degree, generally achieved lower rate of success than those who are less educated. Further, a study on MSEs in Latin American countries by the inter-American Development Bank (IDB), as indicated in Nichter and Goldmar (2005) revealed insignificant relationship between these two variables and noted secondary school attainment has no meaningful impact on firm's growth. This indicates that the association between education and MSE's growth is still controversial and needs to be tested.

**c. Short term Training**

Short term skill training has been found to be important factor to stimulate performance and consequently firm growth and survival. Many argue that the individual psychological factors and the cultural context are of the basic factors in persuading the behaviour of an individual. Training imparts knowledge and skills and mental awareness that an individual can use during each phase of business development (Alberti, Sciasca & Poli, 2004). Crowling (2009) has found a positive effect of school based training on job creation by small firms in UK. He also found a positive relation between skill training and growth of MSEs.

**d. Startup Capital**

Concerning firm and industry characteristics, start-up size had the expected positive effect on MSEs survival, implying the larger the size of the set up enterprise, the lower is the probability of drop-out. The impact of financial resource at the time of start-up captured by the size of start-up capital, and it turns out that larger amount of start-up capital reduces the risk of drop-out. Entrepreneurs who invested more capital have a significantly higher probability of survival than the others, suggesting that adequate amount of start-up capital is a key factor for a firm's survival and subsequent growth (MCUD, 2013).

**e. Business Plan Preparation**

Those MSEs that started after making proper business plan or any market analysis are expected to grow. This is because, while preparing the business plan, the entrepreneur will have the opportunity to identify possible source of failure and take remedial action in advance. In addition, when business plan is prepared in advance, the entrepreneur will not start a business which does not promise some amount of profit. Therefore, starting a business by undertaking some sort of market assessment or formal business plan will have a positive contribution to the growth of MSEs (MCUD, 2013).

## IV. RESEARCH DESIGN AND METHODOLOGY

Research design is the science and art of planning for conducting studies so as to get the most valid findings (Kothari, 2004). Determining research design gives a detailed plan that is used to guide and focus on the research. This study is aimed to investigate the contribution of access to formal financial sources on the growth of MSEs in Ethiopia. Thus explanatory research design is viewed as an appropriate research design for this study.

Generally, the first step in any sampling method is to identify the study population from where the samples would be drawn. This is often undertaken by using lists of population where such lists are available; otherwise, we need to prepare the list and undertake the designed study based on the selected sampling strategy and size. Nevertheless, not only the population of MSEs is too large and their distributions across sectors and zones have been diverse, but also the records showing their lists were not available. With the limited research

 

budget and time, we decided to conduct the study in three major towns in west Oromia including Jimma , Nekemte and Metu towns. Therefore, the sample size for this study is determined to be 300 MSEs found in the three towns. Once the sample size is decided, stratified sampling technique was applied to take representative samples from each sector. Regarding sample MSEs selection, all kebels in the three towns are covered by the survey. First, MSEs found in each kebele of the three town were identified from the respective town's MSE agency. Then, the sample size determined for each town was proportionally distributed to each kebele based on the number and type of MSEs found in that area. Then interview schedule was presented to the selected MSEs through walk in methods. Sometimes when a given MSEs is not willing to participate in the interview or not found in their location, another one from the same vicinity was substituted

To achieve the objective of the study, cross-sectional survey method was implemented to collect data using interview schedule. The schedule prepared in English was translated in to Amharic so that the respondents easily understand the questions. After refining and translating the interview schedule, the data for the research were gathered through interview by trained enumerators. In this method, the enumerators go to the respondents premises and collect their opinion. This method was selected because of the following reasons. First, in this approach, the enumerator will present the questions orally and respondents can give their opinion without much difficulty. Second, this method allows face to face contact and respondents can ask clarification on any ambiguity in the questionnaire. Third, this method saves time of busy respondents and increases the response rate. Finally, this method requires the interviewers to visit the MSEs under study which helps to make informal conversation with other employees for further general information and clarification.

Regression is the main methods of data analysis that is suitable to this research. The analysis involves eight variables one of which is dependent and the remaining seven are independent. The dependent variable is growth of MSEs which is measured in two ways. In the first method, growth of MSEs is measured in terms of accumulation of capital from date of establishment. To carve the problem of inflation and difference in the number of years in operation, dividing the natural logarithm of the real capital difference between the two years by the age of the enterprise was used as the average adjusted yearly capital growth for each firm. The second method used to capture MSES growth is by directly asking owners' or managers opinions to label their pattern of growth as rapidly growing, moderately growing, slowly growing, stagnating or even declining. Both measures of growth revealed approximately the same result in the analysis. In addition to the dependent variable, for the seven independent variables used in the analysis, their respective symbols and measurement are presented in table 2 as follows.

**Table 2: Independent Variables and Their Measurement**

| | Variables | Symbol | Measurement |
|---|---|---|---|
| 1. | Education | EDU | 1= BA & Above<br>2 = TVET or Preparatory<br>3 = 10th grade & Below |
| 2. | Training | TRAIN | 0 = Not Taken any Training<br>1 = Taken Training |
| 3. | Entrepreneurship Capability | ENT | 0 = Involuntary Entrant<br>1= Voluntary Entrants |
| 4. | Business Plan | BPLAN | 0 = Not prepared Business plan<br>1 = Prepared Business Plan |
| 5. | Startup Capital | SCAP | Logarithm of Initial capital |
| 6. | Access to Bank Credit | BANK | 0 = Have no access to bank credit<br>1= have access to bank credit |
| 7. | Access to MFIs Credit | MFIs | 0 = Have no access to MFIs credit<br>1= have access to MFIS credit |

Since the objective of this study is to investigate the contribution of access to formal financial source on growth of MSEs, regression equation relating Growth and access to formal finance was formulated. However, there are several factors that affect growth in addition to access to finance. These includes among others; educational level of the owner or manager, training, startup capital, entrepreneurial capability of the owner or the manager, business plan preparation. Ordinary least square is used in order to see the effect of access to finance on MSEs growth. The multiple regression model relating the dependent and independent variables is given as follows:

$$GROWTH = f(EDU, TRAIN, ENT, SCAP, BPLAN, BANK, MFIs) \quad [1]$$

$$GROWTH = \beta_0 + \beta_1 EDU + \beta_2 TRAIN + \beta_3 ENT + \beta_4 BPLAN + \beta_5 SCAP + \beta_6 BANK + \beta 7 MFIs + e_i \quad [2]$$

 

## V. RESULT AND DISCUSSION

Before going to the regression analysis, it is useful to understand how and why MSEs under study are established. A question on what initiated the owners to establish the business was requested. The following bar graph (figure 1) summarizes the response for this question.

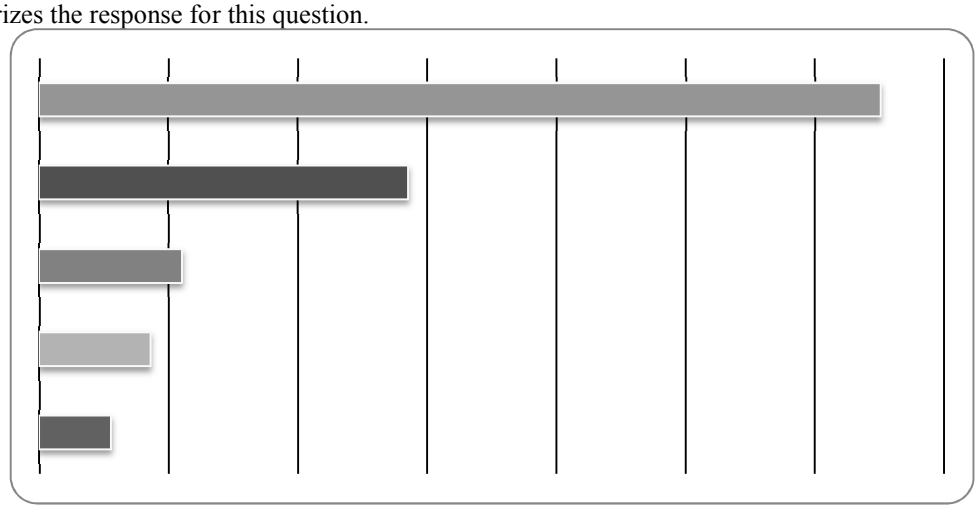

Figure 1: Reasons for starting the business

As can be observed from figure 1, above 60 percent of MSEs are established as a result of entrepreneurial desire to have their own business. Other factors triggering establishment of the MSEs include; inability to get employment elsewhere, pressure from family and friends, retrenchment from private or public organization. Some owners' also mentioned that they have inherited their business from their parents.

In addition to the question on what initiated them to establish the business, a question on whether they have made feasibility study before they start the business and what their future objective was asked. Table 2 below summarizes the response for these two questions.

**Table 2: Preparation of Business Plan & Objectives**

| Have you Made business Plan before you start? | Jimma | Mettu | Nekemte | Total | % |
|---|---|---|---|---|---|
| Yes, I have made formal business plan | 8 | 6 | 7 | 21 | 10.50% |
| Yes, but informal market assessment | 26 | 49 | 17 | 92 | 46.00% |
| No, I opened it simply by looking others | 67 | 8 | 12 | 87 | 43.50% |
| Total | 101 | 63 | 36 | 200 | 100.00% |
| What is your future Objective? | | | | | |
| Expanding the same business further | 40 | 23 | 17 | 80 | 40.00% |
| Continuing the same way | 20 | 18 | 2 | 40 | 20.00% |
| Diversify to different sector | 40 | 17 | 15 | 72 | 36.00% |
| Changing the existing one to another sector | 5 | 5 | 0 | 10 | 5.00% |
| Liquidating the business | 1 | 5 | 1 | 7 | 3.50% |
| Total | 101 | 63 | 36 | 200 | 100.00% |

As can be observed from table 2, only 10.5 percent of the owners have prepared formal business plan before starting the business. The majority started with minor informal market assessment or without any market assessment by looking at their neighbours. This is something normal in developing countries like Ethiopia where business awareness of citizen is very low. When compared among the three towns, those found in Metu and Nekemte town are better in preparing business plan as compared to those in Jimma town.

In addition to business plan preparation, respondents were also asked about their future plan with regard to their business. Above 80 percent of the respondents have the objective of further expanding the same business or diversifying in to different business. Only less than one quarter of the owners have the plan to either continue the same way or liquidate their business. Similar to this finding, in a survey sponsored by Ethiopia-Canada cooperation office and conducted by Mohammed et al. (2015), two-thirds of the business owners of both genders replied that their future plan is either to continue working in the sector or expand further.

Training applies to any transfer of knowledge, skills or attitudes, which is organized to prepare people for more productive activities, or to change their working environment. Unlike formal educational programs, short-term skill training directly or indirectly affects the performance of the MSE operators. With this respect, respondents were asked whether they have taken any short term management or technical training and their capacity to cover the associated cost. Table 3 below summarizes the response for these two questions.

 

**Table 3: Need for Training and Cost**

| Have you taken any training? | % | Can you cover the cost if arranged? | % |
|---|---|---|---|
| Had the training | 42 | Yes, I can cover totally | 24 |
| Had no training | 52 | Yes, I can cover partially | 37 |
| Started training but not completed | 6 | No, I cannot cover | 39 |
| Total | 100 | Total | 100 |

From table 3 above, it is clear that the majority of the respondents did not take any training. Only about 42 percent of the respondents claim that they have taken some sort of training. The training mainly concentrated on few areas such as technical skill training, marketing and financial management and entrepreneurship. Technical and Vocational Education and Training (TVET) institutions are responsible to provide such trainings.

Interview with one of the TVET deans in the study area indicated that Entrepreneurship and management training are given at the beginning before the operators start the business but the skill training is provided on the job. A trainer from TVET College identify skill gap by observing tasks in the MSEs' premise. Then, he/she arrange the consultancy or the training focusing on immediate problems of the work itself.

From table 3 about 61 percent of the respondents claimed they can cover the training cost at least partially. Only about two fifth of the respondent cannot cover training cost. The willingness of many MSE operators to share the cost of training is a positive contribution towards designing and delivering sustainable business development service to the MSE sector in the future. As training is the commonly and widely used instrument to promote MSEs, attempt should be made to make it demand-led: that is, training to MSE should be treated in a business-like manner (include fees to cover the cost of training) and marketed to them and the training delivered to MSE operators should be continuously monitored and evaluated of their effectiveness.

Further respondents were asked whether they have requested credit from Banks and Microfinance institutions and become successful after starting the MSE. The following table 4 summarizes the result of the survey.

**Table 4: Credit from Banks and MFIs**

| Have you requested Credit from Banks | Jimma | Mettu | Nekemte | Total | % |
|---|---|---|---|---|---|
| Yes & Succeeded | 13 | 6 | 5 | 24 | 12.00 |
| Not at all | 80 | 38 | 22 | 140 | 70.00 |
| Yes but not Succeeded | 8 | 19 | 9 | 36 | 18.00 |
| Total | 101 | 63 | 36 | 200 | 100.00 |
| **Have you requested Credit from MFIs** | **Jimma** | **Mettu** | **Nekemte** | **Total** | **%** |
| Yes & succeeded | 10 | 21 | 17 | 48 | 24.00 |
| Not at all | 80 | 27 | 15 | 122 | 61.00 |
| Yes but not succeeded | 11 | 15 | 4 | 30 | 15.00 |
| Total | 101 | 63 | 36 | 200 | 100.00 |

As it can be visible from table 4 above, only 12 percent of MSEs that requested bank credit are successful in securing credit. About 88 percent of the MSEs surveyed either did not requested or requested but unsuccessful in getting credit. In addition, as can be seen from table 4 above, only about one quarter of the MSEs has requested and successful in getting credit from MFIs. MSEs found in Metu and Nekemte town are better in getting credit from MFIs.

The 2011 MSE strategy has the main objective of levelling the ground to ensure their sustained growth and provide them with the crucial support to facilitate their growth. Dividing the natural logarithm of the real capital difference between the two years by the age of the enterprise gives us the average yearly capital growth of the surveyed MSEs as shown in table 5 below.

 

**Table 5: Capital Growth Rate**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Capital Growth | 182 | -.13 | 2.01 | .3478 | .30363 |

| Growth rate Interval | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Below 0.00 | 6 | 3.0 | 3.3 | 3.3 |
| 0.00 – 1.00 | 168 | 84.0 | 92.3 | 95.6 |
| Above 1.00 | 8 | 4.0 | 4.4 | 100 |
| Missing | 18 | 9.0 | | |
| Total | 200 | 100.0 | | |

From table 5 it can be seen that about 3.3 percent of the MSEs have faced a negative real annual capital growth. Hence, it can be seen from these figures that the majority (96.7 percent) have registered positive growth during their stays in the market. The other way of approaching the issue of growth is through directly asking the enterprises to state the trend of the growth of their firm since the time of its inception. Based on the information obtained from the respondents, the following table 6 summarizes the growth pattern of MSE in the three towns.

**Table 6: Growth of MSE**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Fast Growth | 21 | 10.5 | 10.5 | 10.5 |
| Moderate Growth | 97 | 48.5 | 48.5 | 59.0 |
| Slow Growth | 63 | 31.5 | 31.5 | 90.5 |
| No Growth | 14 | 7.0 | 7.0 | 97.5 |
| Decline | 5 | 2.5 | 2.5 | 100.0 |
| Total | 200 | 100.0 | 100.0 | |

Per the perception of the owners or managers as seen in table 6 above, about 10.5 percent are showing fast growth; about 48.5 percent are showing moderate growth. 31.5 percent are showing slow growth and the remaining 9.5 percent are not growing or declining which is approximately similar with the result in table 5.

In order to investigate the effect of access to formal financial sources on the growth of MSEs, ordinary least square was used. Multiple linear regression is applied since the dependent variable growth is measured using a likert scale which approximate interval measurement (Mihert, 2010). Since multiple regressions don't like multicollinearity, checking of this assumption is important before starting the analysis (Pallet, 2005). In order to check existence of multicollinearity problem, correlation coefficients among the variables were calculated and presented in a matrix as shown in the table 7 below.

**Table 7: Correlation Matrix among the Variables**

| | EDU | TRAIN | ENT | BPLAN | SCAP | BANK | MFIs |
|---|---|---|---|---|---|---|---|
| EDU | 1 | | | | | | |
| TRAIN | -.231** | 1 | | | | | |
| ENT | .031 | -.207** | 1 | | | | |
| BPLAN | -.401** | .301** | -.044 | 1 | | | |
| SCAP | -.176* | -.093 | .047 | .143 | 1 | | |
| BANK | -.092 | .093 | .074 | .161* | .432** | 1 | |
| MFIs | -.102 | .134 | .033 | .124 | -.017 | -.014 | 1 |

According to Pallet (2005), multicollinearity exists when the independent variables are highly correlated (r = 0.9 and above). As it is shown in the correlation matrix presented in table 7, all the correlation coefficients among the variables are less than 0.9 which implies multicollonearity is not a problem. Once the assumptions of multiple regression were tested as shown above, the regression analysis can be made to identify which of the independent variables significantly determine growth of MSEs. The following table 8 presents the regression model summery.

**Table 8: Multiple Regression Model summery**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| | .295[a] | .087 | .050 | .86610 |

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 12.430 | 7 | 1.776 | 2.367 | .025[b] |
| Residual | 130.521 | 174 | .750 | | |
| Total | 142.951 | 181 | | | |

Table 8 reveals that MSEs' growth and the seven independent variable were significantly correlated as a

 

whole with the correlation coefficient R= 0.295. Table 8 also reports the model of MSE growth with the coefficient of determination $R^2 = 0.087$ which indicates that 8.7 percent of the variation in growth for the sample of 200 MSEs can be explained by the changes in the seven independent variables together while 91.3 percent remains unexplained. In addition, table 8 indicates the summary of Analysis of Variance and F-statistics, which reveals the value of F = 2.367 is significant at P = 0.025 level of significance. The value of F is large enough to conclude that the set of independent variables as a whole are contributing to the variance of growth and therefore, the model represents actual growth of MSEs under study. The next step in the evaluation of regression result is to estimate contribution of each independent variable. Especially, one of the objectives of this study is to examine the effect of access to formal finance on MSE's growth.

**Table 9: Contribution of each Independent Variables**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 2.703 | .639 | | 4.231 | .000 |
| Owner's/Manager's Education | .128 | .120 | .088 | 1.070 | .286 |
| Owner's/Manager's Training | .087 | .146 | .048 | .594 | .554 |
| Entrepreneurship Capability | .268 | .134 | .148 | 1.993 | .048 |
| Prepared Business Plan | .366 | .148 | .206 | 2.475 | .014 |
| Start up capital | .020 | .127 | .013 | .159 | .874 |
| Taken Credit from Bank | .262 | .235 | .093 | 1.114 | .267 |
| Taken Credit from MFIs | .157 | .165 | .072 | .952 | .343 |

Table 9 above shows that among the seven independent variables; only two of them namely entrepreneurship capability and preparation of business plan significantly determine the growth of MSEs. The study confirms that entrepreneurs with high motivation of establishing their own business do experience a significantly higher level of growth rate. Entrepreneurship capability drives MSE owners to experience low level of drop-out risk. In addition to entrepreneurship capability, preparation of business plan before starting MSE or at least making market assessment will help to bring sustainable growth.

The remaining five independent variables including owners/managers educational level, training, start up capital; access to bank credit and access to MFIs' credit are not statistically significant. With respect to educational qualification, it was found that it does not appear to be significant factor for MSEs growth. This is similar with Taylor's (1999) argument that to enter self-employment and survive, entrepreneurs do not need to have a high level of formal education. Moreover, there is no significant positive influence of training (TVET) on the growth of MSEs.

Specifically, the objective of this study is to see the impact of access to formal credit on growth of MSEs. The result indicates that taking credit from formal financial institutions does not significantly contribute to the growth of MSEs. The growth determinants model of MSEs suggested that access to credit from banks and MFIs does not significantly influence MSEs growth. Thus, the empirical evidence rejects the claim that the inability to access formal credit adversely affects MSEs' growth. The result implies that credit should not be considered as miracle of growth but priority should be given to developing entrepreneurial and managerial capability of the owner. The focus in this augment is that improvement to access to Bank or microfinance credit was not sufficient unless the change or improvement is accompanied by changes entrepreneurial behaviour. This implies that the growth of MSEs does not only rely on access to credits but also on the entrepreneurial capability and management skill of the operators.

## VI. CONCLUSION

Although the majority of the respondents claimed they have registered some sort of growth, the multiple regression result indicated that taking credit from formal financial institutions does not significantly contribute to the growth of MSEs. The growth determinants model of MSEs suggested that access to credit does not influence MSEs growth. Thus, the empirical evidence rejects the claim that the inability to access credit from Banks and MFIs adversely affects MSEs' growth. Only other factors such as entrepreneurial capability and preparation of business plan are found to be significantly affecting the growth of MSEs. This finding implies that credit should not be considered as miracle of growth and priority should be given to developing entrepreneur capability of the owners and owner's or manager's ability in making formal assessment of market demand for the product he/she is planning to introduce. Further, efforts to push up MSEs growth should start from the enterprise's internal resources, including owner's human capital, expertise, and customer relationship development rather than external financing. The focus in this argument is that improvement to access to Bank or microfinance credit were not sufficient unless the change or improvement is accompanied by changes in motivation for starting business, technology usage and internal capabilities.

 

## VII. References


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